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Agricultural Modernisation in China: The Second Leap

Published: November 04, 2008 in Knowledge@SMU

Three decades after Deng Xiaoping initiated agricultural reform and market liberalisation, China's countryside is experiencing a second evolution as it transits from traditional to modern agriculture. Agribusinesses of various forms, sizes and origins are playing a key role in this process, also known as the "second leap" envisioned by Deng Xiaoping.

To fill the existing gap in the English language literature about this "second leap", Singapore Management University sociology professor Forrest Zhang, and political science professor John Donaldson co-authored a joint paper entitled, "The Rise of Agrarian Capitalism with Chinese Characteristics: Agricultural Modernisation, Agribusiness and Collective Land Rights".

The article, published in the China Journal recently, discusses the phenomena of, and the various forms of interactions between agribusiness companies and farmers, a transformation which the authors describe as moving the "traditional household-based operation toward scaled-up, specialised, commercialised and vertically integrated agriculture".

Through extensive field research in Shandong and Yunnan provinces, the authors identified five distinct forms of relationships. They make the case that, through these relationships, agribusiness is changing the way productive factors like labour, land and capital are distributed and utilised.

Rural Reforms

In 1978, under the leadership of Deng Xiaoping, rural China underwent a fundamental reform. The old communal system was replaced with decollectivisation, or the Household Responsibility System (HRS). Under this system, households in rural areas were given long-term land use rights and greater freedom to decide what and how much to grow. This gave peasants an incentive to increase agricultural productivity as they could sell the surpluses in the market.

For the two decades that followed, official statistics showed that the number of people living in poverty declined sharply from 260 million in 1978 to 42 million in 1998, one of the fastest poverty reduction rates the world had seen.

However, by the end of the mid 1980s, the focus of development shifted from the rural to the urban, and the government's spending on rural development had shrunk. This, coupled with the small-scale, unorganised and low-tech characteristics of household-based production, eventually led to a drop in agricultural outputs. In fact, agricultural productivity almost stagnated throughout the 1990s.

As agricultural output languished, critics of the HRS lamented the potential loss of productivity caused by splitting communal land into tiny plots. They pointed out that household-based production hindered the use of modern farming equipment by producers, thereby resulting in a loss of economies of scale. It also exposed farmers to "the risks and shocks associated with specialised commercial farming".

Yet against the backdrop of criticisms and widespread calls for fresh measures to tackle stagnating agricultural productivity, new developments are unfolding in the rural areas. These developments also herald the expansion of agrarian capitalism in China.

Two Great Leaps

In the road map for China's rural development, Deng Xiaoping believed that its success hinges on "two great leaps". The first leap, the HRS, brought about a substantial reduction in poverty. The second leap, or "agricultural modernisation", was set in motion by the central government under the leadership of Jiang Zemin from the mid 1990s. Its main goal was to transform traditional agriculture into modern agriculture that could be "commercialised, specialised, scaled up, standardised and internationalied," say the authors.

On this path of modernising agriculture, the central government identified vertical integration as the main engine of change. Vertical integration refers to two parallel processes comprising "scaling up production of a crop in a region" and "integrating cultivation with processing and marketing". More importantly, the central government believed that 'dragon head' agribusiness companies would be the vehicles for vertical integration. Enterprises endowed with this "dragon head" status could receive government support.

Since then, the number of agribusinesses has multiplied. One survey reported that in 2004, 114,000 'dragon head' enterprises were officially recognised across China -- a quadrupling of numbers compared to a mere 27,000 in 2000.

More significantly, with 84.5 million rural households working with them, these agribusinesses are exerting a significant influence on the modernisation process in agriculture.

Five Forms of Relationships

In 2007, Zhang and Donaldson conducted extensive fieldwork to study the expansion of agrarian capitalism in China. Given that agribusiness patterns might differ between the coastal and inland areas, they chose two distinct provinces for their research, Shandong and Yunnan, located in the east and inland respectively. In each province, they researched agricultural products resulting from agribusiness expansion and how vertical integration was implemented.

Through a series of interviews covering the entire range of agribusiness players -- "government officials, farmers, entrepreneurs, managers, staff and others who were involved in growing, harvesting, marketing and processing the selected agricultural products" -- Zhang and Donaldson identified five main forms of interactions between agribusiness and farmers.

Commercial Farmers

The authors describe this group as "rural households that grow crops exclusively for commercial exchange, and meet their subsistence and other needs by buying grain on markets instead of by growing it". In addition, the farmers have full control over land and labour.

Due to the households' reliance on markets for subsistence, farmers are vulnerable to economic and social risks beyond their village. The authors describe these as including "false or untimely market information, fraudulent transaction partners and price fluctuation". Moreover, the high cost arising from the transport, storage, processing and marketing of crops also deters farmers from going into commercial farming.

According to the authors, in the 1980s local governments tried with little success to coordinate marketisation and help develop commercial farming. However, the increase of agribusiness companies did encourage more households to grow commercial crops. They played the role of intermediary, helped to lower costs and providing commercial farmers access to stable markets. The development of infrastructure such as roads linked farmers to marketing towns and facilitated the entry of middlemen to purchase the crops.

Contract Farmers

This refers to individual farmers who go into a "formal contractual relationship" with an agribusiness company, selling their entire harvest at a fixed price exclusively to this company. In turn, the company provides farmers with a stable market, training, seed capital, technology and other services. As with commercial farmers, contract farmers retain control over their farm land and use only their own labour.

In this contractual relationship, agribusiness companies can wield control over the price (often to their benefit) at which they purchase crops from farmers. As a result, the farmers often violate the contracts by selling some of their crops for a higher price to other buyers -- known as the 'middlemen problem' -- or they compromise the production process and cause product defects.

As a result of these issues, the researchers assert that "contract farming as a form of agrarian capitalism is unstable and likely to be transient".

Semi-proletarian Farm Workers with Chinese Characteristics

Given the drawbacks of contractual relationships with individual farmers, companies see a benefit in gaining greater control over the entire production process and change the incentive structure for farmers. An outcome of this is the establishment of production bases by companies through renting land from the collective (the village) and hiring the farmers as workers to work on the land.

By adding the appendage "with Chinese characteristics", Zhang and Donaldson emphasise the uniqueness of collective land ownership and individualised land use rights in China. Here, companies typically go into contractual relationship with the village collective instead of individual farmers. The collective protects farmers from being thrown off their land as collective land ownership prevents both the local authorities from disenfranchising villagers on the one hand, and also companies from refusing them work.

However, in this form of vertical integration, the farmers have become semi-proletarian. While retaining their entitlements to collective land (many of them receive rent), they can also hire themselves out as labour to the companies for wages.

Semi-Proletarian Farm Workers

Here, companies lease plots of land that were previously declared wasteland, establish production bases that they have total control over, and hire rural workers. These workers migrate to the production bases to work for the

company but they still retain land use rights, except that their land is elsewhere and usually rented out to others within the family and outside.

Proletarian Farm Workers

Finally, proletarian farm workers are similar to the above, except that they are landless. The companies they work for encourage them to give up their land rights in their home villages. The authors found that some of these farm workers and their families had relocated voluntarily from some the poorest areas of China. However, even though were given local resident permits, and had political rights in their adopted village -- such as participating in village elections -- they do not have any entitlement to land rights. Thus they become fully dependent on selling their labour for wages.

Interestingly, in contrast to reports of land grabs that had been widely publicised, Zhang and Donaldson did not encounter any case of land grabs to form production bases. Instead, they found that "the norms of collective land ownership are surprisingly strong".

Collective Land Ownership is Equitable

In spite of China's phenomena economic growth in the last decade, the urban-rural gap is widening, posing a potential threat to undermine the stability of the country.

Hence with 60% of its population still living in the countryside, reducing the urban-rural disparity has become an urgent issue for the central government in recent years. Investing in rural infrastructure, modernising agriculture, and improving productivity are some of the central government's key strategies.

In this context, agribusinesses are playing a key role in this 'second leap' by contributing directly to the expansion and modernisation of agricultural production through these five main forms of interactions.

At the same time, Zhang and Donaldson contend that China's unique system of collective ownership and individualised land usage rights is an equitable one. Although the expected "army of landless vagabonds" did not emerge, China recently contemplated changing the basic HRS institution. The idea was eventually rejected but, during this time, many experts in China and abroad advocated eliminating the HRS in favour of privatising farm land.

The authors are convinced otherwise. Their research showed that eliminating the HRS institution would also eliminate an important institution that ha empowered farmers to stand up to, and resist pressure from the companies.

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